

**REPORT OF THE AUDIT OF THE  
FORMER GRAYSON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2014**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**

**AUDIT OF THE**  
**FORMER GRAYSON COUNTY SHERIFF**

**For The Year Ended**  
**December 31, 2014**

The Auditor of Public Accounts has completed the former Grayson County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by \$12,370 from the prior year, resulting in excess fees of \$106,894 as of December 31, 2014. Receipts increased by \$47,158 from the prior year and disbursements increased by \$34,788.

**Report Comment:**

2014-001    The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

**Deposits:**

The    former    Sheriff's    deposits    were    insured    and    collateralized    by    bank    securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Gary Logsdon, Grayson County Judge/Executive  
The Honorable Rick Clemons, Former Grayson County Sheriff  
The Honorable Norman Chaffins, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Sheriff of Grayson County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Gray Logsdon, Grayson County Judge/Executive  
The Honorable Rick Clemons, Former Grayson County Sheriff  
The Honorable Norman Chaffins, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015 on our consideration of the former Grayson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Grayson County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



The Honorable Gray Logsdon, Grayson County Judge/Executive  
The Honorable Rick Clemons, Former Grayson County Sheriff  
The Honorable Norman Chaffins, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

July 24, 2015

GRAYSON COUNTY  
 RICK CLEMONS, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

Federal Fees for Services - Lake Patrol	\$	24,570	
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			23,179
State Fees For Services:			
Finance and Administration Cabinet	\$	97,143	
Sheriff Security Service		<u>16,748</u>	113,891
Circuit Court Clerk:			
Fines/Fees Collected			14,889
Fiscal Court			20,316
County Clerk - Delinquent Taxes			27,832
Commission On Taxes Collected			421,830
Fees Collected For Services:			
Auto Inspections		9,902	
Accident and Police Reports		41	
Serving Papers		34,320	
Carrying Concealed Deadly Weapon Permits		<u>11,455</u>	55,718
Other:			
Add-On Fees		57,533	
Preparation of Tax Bills		6,247	
Postage		7,957	
Miscellaneous		<u>1,884</u>	73,621
Interest Earned			127
Borrowed Money:			
State Advancement			<u>240,000</u>
Total Receipts			1,015,973

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY  
 RICK CLEMONS, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2014  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$ 224,114
Bailiffs	92,258
Office Clerks	87,600
KLEFPF	18,091

Materials and Supplies-

Office Materials and Supplies	24,719
Uniforms	29,420

Auto Expense-

Gasoline	37,292
Vehicle Maintenance and Repairs	12,771
Vehicles	24,975

Other Charges-

Conventions and Travel	4,334
Transporting	374
Dues	110
Postage	8,060
Computer Service	4,900
Carrying Concealed Deadly Weapons	2,970
Cell Phones	2,605
Miscellaneous	<u>2,579</u>
	\$ 577,172

Debt Service:

State Advancement	<u>240,000</u>
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Total Disbursements	<u>\$ 817,172</u>
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Net Receipts	198,801
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Less: Statutory Maximum	<u>87,997</u>
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Excess Fees	110,804
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Less: Training Incentive Benefit	<u>3,910</u>
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Excess Fees Due County for 2014	106,894
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Payment to Fiscal Court - May 13, 2015	<u>100,000</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 6,894</u></u>
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The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent for the first six months and 34.31 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Grayson County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 4. Lease Agreement

The Office of the former Sheriff was committed to a lease agreement with Great American Leasing Corporation for a copier. The agreement requires a monthly payment of \$399 for 60 months to be completed on February 16, 2014. The total remaining balance of the agreement was \$0 as of December 31, 2014.

Note 5. Drug Eradication Fund

The former Sheriff's office maintained a drug eradication fund for drug related receipts and disbursements. The balance of the fund on January 1, 2014 was \$10,153. During 2014, receipts of the drug eradication fund were \$3,370 and disbursements were \$4,466. The ending balance was \$9,057 as of December 31, 2014, which is not available for excess fees. This amount was turned over to the incoming Sheriff on January 1, 2015.

Note 6. Drug Confiscation Fund

The former Sheriff's office maintained a drug confiscation fund for holding drug related seized funds until a court order for dispensation. The balance of the fund on January 1, 2014 was \$17,515. During 2014, receipts of the drug confiscation fund were \$9,888 and disbursements were \$0. The ending balance was \$27,403 as of December 31, 2014, which is not available for excess fees. This amount was turned over to the incoming Sheriff on January 1, 2015.

Note 7. Lake Patrol

The former Sheriff's office maintained a lake patrol account. The balance of the fund on January 1, 2014 was \$10. During 2014, receipts of the lake patrol account were \$24,570 and disbursements were \$24,580. The ending balance was \$0 as of December 31, 2014.

Note 8. Related Party Transaction

During 2014, the former Sheriff purchased a vacuum cleaner from the bookkeeper for \$1,500.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Gary Logsdon, Grayson County Judge/Executive  
The Honorable Rick Clemons, Former Grayson County Sheriff  
The Honorable Norman Chaffins, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Grayson County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated July 24, 2015. The former County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Grayson County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Grayson County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Grayson County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

July 24, 2015

COMMENT AND RECOMMENDATION



GRAYSON COUNTY  
RICK CLEMONS, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2014

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001    The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts And Reconciliations

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The bookkeeper collected receipts for the office in addition to preparing deposits and preparing daily checkout sheets. A lack of segregation of incompatible duties or strong oversight could result in the undetected misappropriation of assets. It could also lead to inaccurate financial reporting to external agencies such as the Department for Local Government. Good internal controls dictate that the collection of receipts, recording of transactions, and bank reconciling duties be segregated among different employees. Additionally, properly segregated duties protect employees in the normal course of performing their daily responsibilities. Documented compensating controls were not in place to offset this control deficiency. Since the former Sheriff could not properly segregate duties, the following compensating controls should have been implemented:

The former Sheriff or another employee who did not have access to bookkeeping records, cash receipts, cash disbursements, bank records or statements should have periodically:

- Examined the daily checkout sheet and agreed to the deposit ticket, receipts, cash receipts ledger, and bank statement.
- Compared the receipts and disbursements ledger to the monthly and quarterly reports and documented comparisons.
- Reviewed monthly bank reconciliations.
- Performed occasional surprise cash counts.

All compensating controls could have been documented by dating and signing or initialing the documents reviewed.

*Former Sheriff's Response: No response.*

